

RD AN No. 3639 (4279-B)
April 9, 2001

SUBJECT: Interpretation of Annual Gross Revenue
From Legalized Gambling

TO: State Directors, Rural Development

ATTN: Business Programs Managers

PURPOSE/INTENDED OUTCOME

The purpose of this Administrative Notice (AN) is to clarify RD Instruction 4279-B, section 4279.114(h), which lists as an ineligible loan purpose "any business that derives more than 10 percent of annual gross revenue from gambling activity."

COMPARISON WITH PREVIOUS AN:

This AN updates and replaces RD AN No. 3501 (4279-B) which expired December 31, 2000.

IMPLEMENTATION RESPONSIBILITIES:

Annual gross revenue as it relates to gambling is considered the gross receipts, including any lease or rental income, less winner payouts according to the American Institute of Certified Public Accountants' Guide to Audits of Casinos. Revenue recognized and reported by a casino, or any business which generates revenue from gaming activities, is generally defined as the difference between gaming wins and losses, not the total amount wagered. Taxes, machine lessor fees, machine rental fees, and all other expenditures are expenses; therefore, only winner payouts may be deducted from gross receipts to arrive at annual gross revenue.

EXPIRATION DATE: April 30, 2002

FILING INSTRUCTIONS:
Preceding RD Instruction 4279-B

For existing businesses, the gaming revenue reported in the audited financial statements should already reflect payouts. The lender and the State Office should consult the notes to the audited financial statements to verify this. For new businesses, the lender should verify with the state gambling regulatory authority that the projections reflected in the pro forma financial statements are in line with what other comparable-sized gambling entities report as revenue. Documentation to support this should be provided to the State Office.

If you have any questions, please contact the Business and Industry Division at (202) 690-4103.

(Signed by Randall Torgerson) for

WILLIAM F. HAGY III
Acting Administrator
Rural Business-Cooperative Service